ANNUAL REPORT

OF THE

PRINCE EDWARD ISLAND

LOTTERIES COMMISSION

FOR THE YEAR ENDING

MARCH 31, 2000

TO HIS HONOUR

THE HONOURABLE GILBERT R. CLEMENTS
Lieutenant Governor of the Province of
Prince Edward Island

May It Please Your Honour:

In accordance with the Lotteries Commission Act [R.S.P.E.I. 1988, Cap. L-17], I respectfully submit herewith, for the information of Your Honour and the Legislature of Prince Edward Island, the Annual Report of the Prince Edward Island Lotteries Commission for the fiscal year ended 31 March, 2000.

I have the honour to be Sir:

Your Obedient Servant,

Patricia J. Mella

Patricia J. Mella
Chairperson
P.E.I. Lotteries Commission

COMMISSION DES LOTERIES DE L'ÎLE-DU-PRINCE-ÉDOUARD

RAPPORT ANNUEL

pour l'exercice se terminant le 31 mars 2000

REVUE DE L'EXERCICE 1999-2000

CONTEXTE

La Commission des loteries de l'Î.-P.-É. a été créée en 1976 en vertu de la *Lotteries Commission Act*. Le mandat de la Commission consiste à élaborer, organiser, entreprendre, mener et administrer des systèmes de loterie au nom de la province. Et, la Commission délègue ces tâches à son agent, la Société des loteries de l'Atlantique.

La Société des loteries de l'Atlantique a été incorporée en 1976 en vertu de la *Loi canadienne sur les sociétés par actions*. Elle appartient conjointement aux gouvernements des quatre provinces de l'Atlantique. Chaque province a mis en place des lois et règlements sur les loteries et les jeux de hasard, que doit respecter la Société des loteries de l'Atlantique dans le cadre de son administration des jeux de loterie.

CONTINUATION DE LA SOCIÉTÉ DES LOTERIES DE L'ATLANTIQUE

Comme l'indiquait le rapport annuel de l'exercice précédent, la Société des loteries de la Nouvelle-Écosse a officiellement annoncé le 29 mars 1999 son intention de retirer la Nouvelle-Écosse de la Société des loteries de l'Atlantique. À la suite de cette annonce, la Société des loteries de la Nouvelle-Écosse et les autres actionnaires de la Société des loteries de l'Atlantique ont commencé à négocier les conditions de retrait, y compris le partage des éléments d'actif et de passif. Ces négociations ont permis de préciser le coût du retrait de la Nouvelle-Écosse pour toutes les parties, en ce qui a trait à l'exploitation à court terme et continue des activités de loterie dans la région.

Un nouveau gouvernement provincial a été élu en Nouvelle-Écosse au moment où se déroulaient les négociations de retrait. Ce nouveau gouvernement a arrêté le processus de retrait en août 1999 pour pouvoir effectuer une analyse coûts-avantages de la décision originale de se retirer. Cette analyse ainsi que les discussions soutenues avec les premiers ministres des provinces de l'Atlantique ont mené à une entente de principe en janvier 2000 dans le cadre de laquelle les quatre actionnaires s'engagent à continuer la Société des loteries de l'Atlantique dont le rôle est d'exécuter les activités de loterie dans les quatre provinces de l'Atlantique.

Les quatre actionnaires entreprennent actuellement des négociations importantes pour conclure une nouvelle Convention unanime des actionnaires ainsi qu'une entente de représentation détaillée qui s'y rattache. On prévoit que cette convention et cette entente pourront être signées à l'été 2000. En attendant, les quatre actionnaires mettent en place les nouvelles dispositions de partage des profits et des coûts qu'ont approuvées les premiers ministres des provinces de l'Atlantique en janvier 2000.

La Commission des loteries de l'Î.-P.-É. est ravie que les quatre provinces ont renouvelé leur engagement envers la Société des loteries de l'Atlantique. Elle est d'avis que cette démarche conjointe est la plus avantageuse pour toutes les parties et offre le meilleur rendement financier aux actionnaires et, ainsi, aux résidants de chacune des provinces de l'Atlantique.

ÉTUDE DE L'EFFICACITÉ OPÉRATIONNELLE - SOCIÉTÉ DES LOTERIES DE L'ATLANTIQUE

Dans le cadre de l'entente de janvier 2000 qui vise à continuer la Société des loteries de l'Atlantique, les quatre actionnaires ont demandé la tenue d'une étude indépendante de l'efficacité opérationnelle de la Société. Ainsi, les actionnaires veulent s'assurer que la Société des loteries de l'Atlantique exploite ses activités de façon efficiente et efficace pour donner le meilleur rendement possible aux provinces actionnaires.

Le conseil d'administration de la Société des loteries de l'Atlantique dirigera l'étude de l'efficacité opérationnelle. À la fin de l'exercice 1999-2000, les travaux ne faisaient que commencer. Le conseil d'administration prévoit que l'étude et la mise en place ultérieure de toute initiative de changement déterminée se dérouleront en 2000-2001 et en 2001-2002. Il s'agit de la première étude indépendante d'envergure des activités de la Société des loteries de l'Atlantique depuis sa création en 1976.

COURSES ATTELÉES

La Société des courses attelées de la Société des loteries de l'Atlantique (SCASLA) a été créée en 1998, sous la direction de la Société des loteries de l'Atlantique (les actionnaires de l'Île-du-Prince-Édouard, du Nouveau-Brunswick et de la Nouvelle-Écosse). Le mandat de la SCASLA était de relancer l'industrie des courses attelées dans les Maritimes, par l'entremise de subventions aux sept champs de course qui permettront de tenir, de commercialiser et de promouvoir les courses attelées.

Les résultats généraux obtenus en 1998-1999 ont été très encourageants puisque le nombre de visiteurs et de paris a considérablement augmenté à tous les champs de course, y compris ceux de Charlottetown et de Summerside. Malheureusement, cette importante croissance ne s'est pas poursuivie en 1999-2000 et les attentes du plan d'activités triennal

original de la SCASLA en ce qui a trait à son rôle dans l'industrie des courses attelées n'ont pas été réalisées. Par conséquent, la SCASLA a demandé la tenue d'une étude indépendante à la fin de la deuxième année du plan d'activités triennal pour déterminer si elle devait continuer à s'associer avec l'industrie des courses attelées.

À la suite de cette étude, il a été décidé que la SCASLA ne s'associerait plus à l'industrie des courses attelées et qu'elle cesserait ses activités. Au même moment, les provinces de l'Île-du-Prince-Édouard et de la Nouvelle-Écosse ont décidé de continuer d'appuyer directement cette industrie très importante.

Même si l'initiative de la SCASLA n'a pas atteint les résultats prévus dans son plan d'activités original, il est évident qu'elle a obtenu des résultats très positifs pour l'industrie des courses attelées dans toute la région des Maritimes. Ces résultats avantageux ont aidé l'industrie à progresser de façon méthodique pour lui assurer un avenir plus prometteur.

RENDEMENT FINANCIER

Les profits réalisés au moyen des jeux de loterie exploités par la Société des loteries de l'Atlantique en 1999-2000 pour fins de distribution à l'Île-du-Prince-Édouard ont été de 12 500 560 $. Ce montant représente 1 358 031 $ ou 12,2 % de plus par rapport au montant de 1998-1999 qui était de 11 142 529 $. L'augmentation dans les profits démontre une reprise des entrées de loterie vidéo, une augmentation des ventes de billets et un certaine baisse du coût des courses attelées.

Les profits tirés des jeux de loterie que reçoit l'Île-du-Prince-Édouard sont versés dans les recettes générales de la province. Et, dans le cadre des recettes générales de la province, les profits servent à financer les nombreux services importants dont les résidants de l'Île ont besoin et qu'ils attendent de leur gouvernement provincial.

Le tableau 1 à la page suivante présente des données comparatives pour l'Île-du-Prince-Édouard sur les profits bruts par type de programme pour les exercices 1998-1999 et 1999-2000.

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

ANNUAL REPORT

For the Fiscal Year Ending 31 March 2000

OVERVIEW FOR FISCAL YEAR 1999-2000

BACKGROUND

The P.E.I. Lotteries Commission was established in 1976 under the *Lotteries Commission Act*. The Commission's mandate is to develop, organize, undertake, conduct and manage lottery schemes on behalf of the Province. The Commission has, in turn, delegated these duties to its agent, the Atlantic Lottery Corporation.

The Atlantic Lottery Corporation was incorporated in 1976 under the *Canada Business Corporation's Act*. The Corporation is jointly owned by the four Atlantic Provinces. Each Province has lottery and gaming legislation in place, with supporting regulations, which must be complied with by the Atlantic Lottery Corporation in its operation of lottery games in each jurisdiction.

CONTINUATION OF THE ATLANTIC LOTTERY CORPORATION

As reported in last year's annual report, the Nova Scotia Gaming Corporation formally announced on March 29, 1999, its intention to withdraw Nova Scotia from the Atlantic Lottery Corporation. Following this announcement, the Nova Scotia Gaming Corporation and the other shareholders of the Atlantic Lottery Corporation started the process of negotiating the withdrawal conditions, including the division of assets and liabilities. These negotiations increasingly identified the cost to all parties of the Nova Scotia withdrawal, both on the short term and on the ongoing operations of lottery activities within the region.

A new Provincial Government was elected in Nova Scotia during the withdrawal negotiations. This new Government put a hold on the withdrawal process in August, 1999, so they could conduct a cost-benefit analysis of the original decision to withdraw. This analysis, along with continued discussions among the Premiers of the Atlantic Provinces, lead to an agreement in principle in January, 2000, by all four shareholders to recommit to the continuation of the Atlantic Lottery Corporation as the agent for the delivery of lottery activities in the four Atlantic Provinces.

The four shareholders are now carrying out extensive negotiations on a new Unanimous Shareholders' Agreement and a related detailed Agency Agreement. It is expected that these agreements will be ready for signing in the summer of 2000. In the interim, the four shareholders are implementing the new profit/cost sharing arrangements agreed to by the Atlantic Premiers in January, 2000.

The P.E.I. Lotteries Commission is very pleased the four Provinces have recommitted to working within the Atlantic Lottery Corporation. The Commission believes this joint, cooperative approach provides the best business arrangement for all parties and the best financial returns to the shareholders and, in turn, the people of each of the Atlantic Provinces.

OPERATIONAL EFFICIENCY REVIEW - ATLANTIC LOTTERY CORPORATION

As part of the January, 2000 agreement to continue to work together in the Atlantic Lottery Corporation, the four shareholders directed that an independent operational efficiency review of the Corporation be carried out. In providing this direction, the shareholders want to ensure that the Atlantic Lottery Corporation is operating in an efficient and effective manner, so as to provide maximum returns to the shareholder Provinces.

The Board of Directors of the Atlantic Lottery Corporation will be leading the operational efficiency review. Work on the review is just commencing as the 1999-2000 fiscal year comes to an end. The Board expects that the review and the subsequent implementation of any identified change initiatives, will likely run through fiscal year 2000-01 into the following fiscal year. This is the first major independent review of the Atlantic Lottery Corporation's operations since its establishment in 1976.

HARNESS RACING

The ALC Harness Racing Corporation (ALCHR) was established in 1998 under the ownership of the Atlantic Lottery Corporation (Prince Edward Island, New Brunswick and Nova Scotia shareholders). The mandate of ALCHR was the revitalization of the harness racing industry in the Maritimes, through the provision of grants to the seven harness racing tracks to be used for the operation, marketing and promotion of harness racing.

The overall results in fiscal year 1998-99 were very encouraging, with substantial increases in attendance and betting at all tracks including Charlottetown and Summerside. Unfortunately, this substantial growth did not continue in fiscal year 1999-2000 and fell short of ALCHR's original three-year business plan for its involvement with the harness racing industry. As a result, ALCHR commissioned an independent study at the end of the second year of the three-year business plan, to review ALCHR's continued involvement, if any, in the harness racing industry.

Following from that study, it was decided that ALCHR would no longer be involved in the harness racing industry and will discontinue its operations. At the same time, the Provinces of Prince Edward Island and Nova Scotia have decided to continue their own direct support of this very important industry.

While the ALCHR initiative did not achieve its original business plan results, it is clear that it did achieve very positive results for the harness racing industry throughout the Maritime region. These beneficial results have left the industry in a better position to move forward in an organized way to a more successful future.

FINANCIAL PERFORMANCE

Profits earned for distribution to Prince Edward Island from Atlantic Lottery Corporation operated lottery games during fiscal year 1999-2000 totalled $12,500,560. This amount is up $1, 358,031 or 12.2% from the 1998-99 figure of $11,142,529. The increase in profits reflect a rebound in video lottery receipts, an increase in ticket sales and some decrease in harness racing costs.

The profits received by Prince Edward Island from lottery games are placed in the Province's general revenues. As part of the Province's general revenues, the profits are used to help fund the many important services Islanders require and expect from their Provincial Government.

Table 1 on the following page provides comparative information for Prince Edward Island on gross profit by program type for fiscal years 1998-99 and 1999-2000.

TABLE 1

ALLOCATION OF GROSS PROFIT BY

GAME TYPE - PRINCE EDWARD ISLAND

(MILLIONS)

	2000			1999		
	Video Lottery $	Ticket Games $	Total $	Video Lottery $	Ticket Games $	Total $
Gross ticket sales	-	28.5	28.5	-	27.5	27.5
Net video lottery receipts	13.2	-	13.2	11.4	-	11.4
	13.2	28.5	41.7	11.4	27.5	38.9
Direct Expenses:						
Prizes on ticket sales	-	15.4	15.4	-	15.2	15.2
Commissions	5.0	2.0	7.0	4.3	1.9	6.2
Ticket printing	-	0.7	0.7	-	0.7	0.7
	5.0	18.1	23.1	4.3	17.8	22.1
Gross Profit	8.2	10.4	18.6	7.1	9.7	16.8

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

1. COMMISSION ESTABLISHED

The Lotteries Act (L.P.E.I. 1976, Cap. 20), enacted by the Legislative Assembly at its 1976 Session and given Royal Assent on 22 April 1976, provided for the establishment of a P.E.I. Lotteries Commission. The Act was proclaimed via Order-in-Council No. EC673/76 for effect on 24 July 1976.

2. OFFICERS AND MEMBERS

As of March 31, 2000, the members and officers of the P.E.I. Lotteries Commission were: Honourable Patricia J. Mella, Chair, Michael L. O'Brien, Vice-Chair, and Ginger Breedon, Secretary-Treasurer.

Mr. O'Brien and Mr. Breedon were also Prince Edward Island's representatives as Directors on the Atlantic Lottery Corporations's Board of Directors.

3. BYLAWS OF THE COMMISSION

In addition to the requirements of the Lotteries Act, the Commission is governed by its Bylaws which were approved by the Lieutenant Governor in Council on 26 August 1976 via EC794/76.

4. AGREEMENTS

As provided in Section 7 of the Act, subsections (b) and (c), the Commission recommended two agreements for the consideration of the Lieutenant Governor in Council, both of which were approved and subsequently entered into by the Commission.

1. EC796/76 of 26 August 1976, an agreement with the Provinces of Nova Scotia, New Brunswick and Newfoundland to establish and operate a regional lottery.

2. EC797/76 of 26 August 1976, an agreement for the establishment of the Atlantic Lottery Corporation.

5. LOTTERIES OPERATED OR SANCTIONED

The P.E.I. Lotteries Commission did not, itself, operate any lotteries during the fiscal year 1999-2000. However, a number of lottery games sanctioned by the Commission and developed and managed by the Atlantic Lottery Corporation were in operation during the fiscal year. These included Loto 6/49, Super 7, TAG, Pik 4, Atlantic Choice, Sports Select and various instant pick/breakopen games.

On-line video lotteries are also available.

6. FINANCIAL REPORT

The Financial Statements of the Prince Edward Island Lotteries Commission, as prepared by the Auditor General's Office, follow as part of this report.

AUDITOR GENERAL

CHARLOTTETOWN

PRINCE EDWARD ISLAND

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

FINANCIAL STATEMENTS

MARCH 31, 2000

AUDITOR GENERAL

CHARLOTTETOWN

PRINCE EDWARD ISLAND

AUDITOR'S REPORT

To the Members of the
Prince Edward Island Lotteries Commission

I have examined the balance sheet of the Prince Edward Island Lotteries Commission as at March 31, 2000 and the statement of financial activities for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2000 and the results of its operations for the year then ended in accordance with generally accepted accounting principles.

J. Wayne Murphy, FCA
Auditor General

Charlottetown, Prince Edward Island
June 12, 2000

STATEMENT 1

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

BALANCE SHEET

MARCH 31, 2000

	2000	1999
ASSETS		
CURRENT ASSETS		
Due from Atlantic Lottery Corporation Inc.	$ -	$959,027
Due from Province of Prince Edward Island	399,207	-
	399,207	959,027
OTHER ASSETS		
Share in Atlantic Lottery Corporation Inc. - at cost	100	100
Share in Interprovincial Lottery Corporation - at cost	1	1
	101	101
	$399,308	$959,128
LIABILITIES		
CURRENT LIABILITIES		
Due to Atlantic Lottery Corporation Inc.	$399,308	$ -
Due to Province of Prince Edward Island	-	959,128
	$399,308	$959,128

(The accompanying note is an integral part of these financial statements.)

SIGNED ON BEHALF OF THE COMMISSION:

Patricia J Mella

Chair - Director

STATEMENT 2

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

STATEMENT OF FINANCIAL ACTIVITIES

YEAR ENDED MARCH 31, 2000

	2000	1999
REVENUE		
Distribution of Atlantic Lottery Corporation Inc. net profit - Note 1	$12,500,560	$11,142,529
EXPENDITURE		
Remittance to Province of Prince Edward Island	12,500,560	11,142,529
NET RESULT AFTER REMITTANCE TO PROVINCE OF PRINCE EDWARD ISLAND	$ -	$ -

(The accompanying note is an integral part of these financial statements.)

PRINCE EDWARD ISLAND LOTTERIES COMMISSION

NOTES TO FINANCIAL STATEMENTS

MARCH 31, 2000

1. Description of Business

The Government of Prince Edward Island operates no lotteries but the Province, through its ownership of the Prince Edward Island Lotteries Commission, is a shareholder in the Atlantic Lottery Corporation Inc. (ALC) and in the Interprovincial Lottery Corporation (ILC). The ALC is jointly owned by the four Atlantic provinces and is responsible to develop, organize, undertake, conduct and manage lotteries in Atlantic Canada. The ALC also markets and handles regionally the products of the ILC, which is jointly owned by the ten Canadian provinces. Investments in the ALC and in the ILC are carried at cost.

Net profits of the ALC, including the ILC operating results, are distributed monthly to the shareholders. Operational costs attributable to all provinces are subtracted from total revenues. The remaining profits are allocated to the individual provinces on the basis of each province's portion of net sales. Expenses separable and specific to each individual province are then subtracted and each province's balance is paid out.

Profits received by the Commission from the ALC are remitted to the Province of Prince Edward Island.